

## MEMORANDUM

July 27, 2010

To: City Council Finance Committee

From: Lauren Bradley, Administrative Services Director

Via: Gary W. Jackson, City Manager

Subject: Capital Improvement Planning, FY 2011-12

CC: All Department Directors

### **Summary**

The purpose of this memorandum is to seek direction from the City Council Finance Committee on next steps for enhancing the city's capital improvement planning process and related schedule for the upcoming budget process. The Finance Committee's recommendation for next steps will be brought forward for City Council consideration at the August 10, 2010 meeting.

### **Background**

At the City Council retreat in January 2010, staff presented *Asheville 2010: A Financial Crossroads*, a paper that explored Asheville's financial structure in the context of delivering the community's vision as captured in a series of master plans. Among other recommendations, the paper suggested that Asheville should begin to explore opportunities to diversify its revenue sources to achieve long-term capital investments, including exploring the feasibility of a bond program.

During the retreat, City Council updated its strategic plan for Fiscal Year 2010-2011 and included a goal to "explore alternatives for enhancing the city's long-term financial commitment to master plan implementation, infrastructure maintenance, capital improvements, and public facilities." City Council established a specific objective under this goal to "explore the feasibility of a bond program now or in future years, and learn more about financing options outside of a property tax increase." In order to move this initiative forward, staff is seeking City Council direction on the strategy and timing of expanding the city's capital program now or in future years.

### **Preliminary Analysis**

Staff has outlined four options for the city's capital improvement program in the next fiscal year, FY 2011-2012, in the table on the reverse side of this document.

Option	What does this mean?	Require property tax increase?	What could be funded through this approach?	How much could we put into the CIP?
<b>Pay-as-you-go</b> Continue "pay-as-you-go" capital investments	Capital improvements would be funded at a level that a General Fund contribution could support.	No	It is likely that this level of funding would only partially address critical needs. The FY 2010-11 contribution was \$7.8 million, with \$2.6 million available for infrastructure and park maintenance, vehicles and equipment.	\$1 million in debt service will be retired in FY 2011-2012. In addition, the city could consider increasing the GF contribution, which would impact the amount available to fund general operations.
<b>Installment Financing/ Certificates of Participation</b> Pursue COPS/Installment Financing for certain improvements	Capital facilities, including buildings, utilities, structures or other facilities, or property developments, including streets and landscaping, as well as the acquisition of equipment, machinery, and furnishings in connection with these items are eligible for COPS/Installment financing. COPS/Installments do not require a voter approval because the financed assets can be pledged toward the debt.	No	Buildings, land acquisition and property development. City Hall repairs will likely be financed through COPS/Installment. Sidewalks, greenways and street improvements on their own could not be funded through COPS.	The amount available through financing would depend on the city's ability to fund the debt service payments and the right mix of projects. \$1 million in retired debt service could be used for this purpose. The city could consider increasing the GF contribution.
<b>General Obligation Bonds</b> Expand the capital program through a bond referendum for the issuance of General Obligation Bonds	GO Bonds are secured by the pledge of a property tax levy sufficient to meet debt service obligations. Generally, local governments already levy a property tax and can choose to use a portion of the property tax it already levies, use some other revenue stream, or increase its property tax by an amount equal to its debt service payments.	Not required but typically includes one to cover debt service and associated operational expenses (eg., fire station staffing, mowing per linear mile of greenway, etc.)	Sidewalks, greenways, roadway improvements, parks improvements, etc.	The city is statutorily limited in to issuing no more than 8% of its assessed valuation in GO Bonds. Asheville is currently at 0.4%, and so there is ample capacity. The amount available through financing would depend on the city's ability to fund the debt service payments and a tax levy to support those payments.
<b>Build capital reserves</b> Save funds made available through the retirement of debt to put toward a bond program at a future date.	Retired debt service would be saved in capital reserves for use in a bond program implemented at a later date.	No	Future investments made possible by a later issuance of debt.	\$1 million in debt service will be retired in FY 2011-2012. An additional \$1 million is expected to be retired in 2014-2015.

In order to further illustrate the steps and timeframe associated with initiating a General Obligation Bond referendum, staff has developed a draft schedule for moving a referendum forward for a vote by May 2011. That schedule is attached to this report.

### Recommended Next Steps

Given the importance of charting a long-term course for the city's capital improvement program, as well as the complexity of the options for moving forward, staff recommends that City Council consider holding a half-day retreat to discuss capital planning. The timing of Council's consideration is also important, especially if Council is interested in expanding the capital program in FY 2011-2012 through the issuance of debt. For that reason, staff would recommend holding the half-day retreat, preferably in the August timeframe or in September at the latest.

Attachments: Preliminary CIP Bond Referendum Schedule  
Draft FY 2010-2011 Business Calendar